

INSURANCE COUNSELOR

Insurance Consumer Information Sheet

Surplus Lines Policies

Your insurance agent has placed the insurance you requested in the “surplus lines market” with one or more surplus lines insurers. By definition, such surplus lines insurers are not *licensed* in the state, but this does not mean that the transaction is not regulated. The surplus lines market is an insurance marketplace that is established for the purpose of insuring unique or hard to place risks. Some of the rules that apply to surplus lines insurance policies and surplus lines insurance companies differ from those that govern coverage obtained from insurance companies licensed in your state. In order for you to better understand the surplus lines market and the rights you have in a surplus lines transaction, the following material is provided.

What is a surplus lines policy?

A surplus lines policy is a policy placed by your agent with an insurer which is not *licensed* (or ‘*admitted*’) in this state, but is nonetheless *eligible* to provide insurance on property or liability insurance protection to citizens of this state through specially licensed agents or brokers known as surplus lines agents.

Why am I getting coverage from a surplus lines insurer?

Your agent was unable to obtain the coverage you requested from insurance companies admitted in the state, but was able to provide the coverage from an eligible surplus lines insurance company. The reason for your agent’s action is that the risk or property for which you sought coverage may

be unique or have certain risk characteristics causing admitted insurers to decline to write the policy. In circumstances where admitted insurers will not write the risk, it is legal and acceptable for your agent to obtain the coverage from a ‘surplus lines’ insurer.

Since the surplus lines insurer is unlicensed or (“not admitted”), how is the transaction regulated?

Surplus lines transactions are regulated by state laws which require that surplus lines policies be procured only by specially licensed agents. These are called surplus lines agents and they are authorized to transact business with certain unlicensed or not admitted insurers that meet financial and other eligibility standards set by the state. These insurers are known as surplus lines insurers. Your agent may have worked with a licensed surplus lines agent in securing your policy. Alternatively, your agent may hold a surplus lines license.

Is my surplus lines policy covered by the state guaranty or insolvency fund?

Except in the state of New Jersey, there is no guaranty fund coverage for surplus lines policies. The guaranty fund only covers policies of licensed or admitted insurers.

How is the rate or price of a surplus lines policy determined?

The rate or premium charged for a surplus lines policy is determined by the surplus lines insurer depending upon the coverage, policy limits, exclusions, deductibles or other similar policy provisions. Surplus lines insurers do not file their rates or premiums with the state

for review or approval. The total cost of the policy will include the insurer's premium charge, state surplus lines taxes plus regulatory fee, agent fees generally up to \$25.00 and commissions incurred in selling and delivering the policy to you.

ascertain the status of the policy and to assure continuity of coverage.

Does a surplus lines policy contain standard policy language?

The policies of surplus lines insurers are not reviewed or approved by the state. A surplus lines insurer can modify, and often does modify, standard policy language to decrease or increase coverage depending upon the desire of the insured and the extent to which the insurer is willing to offer coverage.

Michigan law requires the following information be printed, typed or stamped in red ink on each surplus lines policy. **“This insurance has been placed with an insurer that is not licensed by the state of Michigan, in case of insolvency, payment of claims may not be guaranteed.”**

Can my policy be renewed or extended?

Your surplus lines policy may or may not be renewed or extended when the policy expires. An extension of the policy coverage will be dependent upon the continued unavailability of the coverage from insurers licensed in this state and the willingness of the surplus lines insurer to continue to accept the risk. Since a surplus lines policy is not subject to the same notice requirements as a policy issued by a licensed insurer, notice of a premium increase for a new policy term or the company's intent not to extend the policy at the same terms and conditions might not be provided until close to the date the policy expires. Therefore, you should keep in contact with your agent, particularly as the expiration of the policy term nears, to